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John Neagle

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Commercial Banks Reach Debt Reduction Agreement With Costa Rica

by John Neagle
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Under an agreement with foreign commercial bank creditors announced Oct. 27, Costa Rica will be able to reduce its foreign debt by more than $1 billion by buying back loans at a discount, and paying lower interest on remaining loans. Of Costa Rica's total $4.5 billion debt, $1.8 billion are owed to commercial banks. Interest arrears to the banks total $300 million. Under the plan, Costa Rica would buy back 60% of its commercial bank debt at a discount of around 80%. Costa Rican loans in secondary markets are currently quoted at 17 cents to the dollar. The International Monetary Fund, the World Bank and several donor countries, including the US and Japan, will provide $228 million to pay for the debt buy-back and to make a $60 million payment on Costa Rica's interest arrears to the banks. The remaining interest arrears are to be paid over 15 years at market rates. These bonds are to have a three-year renewable guarantee, to be extended if no interest payments are missed. If a bank sells back 60% or more of its debt, the remaining portion would be transformed into a 25-year bond paying 6.25%. The bank will receive a one-year, renewable guarantee on interest payments. Banks that sell back less than 60% of their loans will not receive the interest guarantee. (Basic data from Notimex, 10/27/89; New York Times, 10/28/89)

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